

Competitive Position

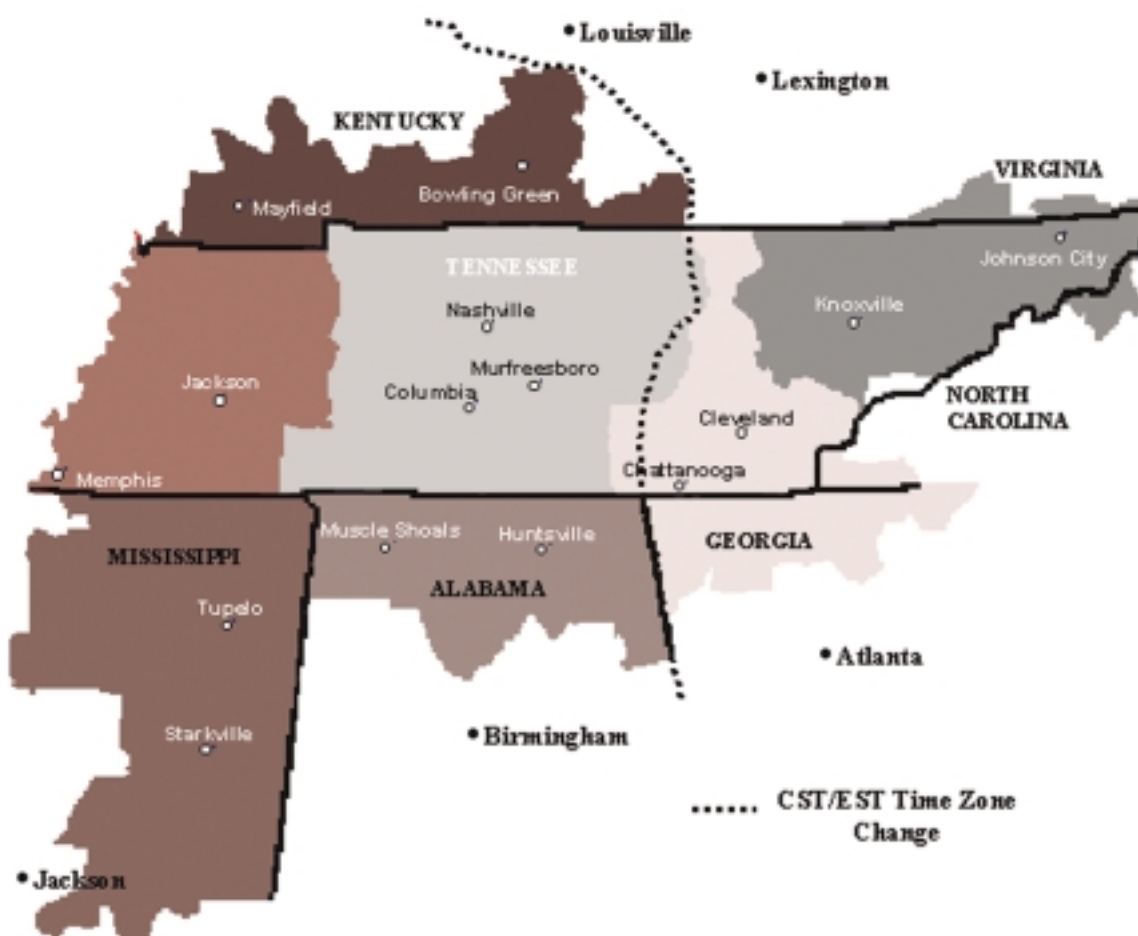
Customer Service

A Solid Customer Base

TVA's customer base of 158 distributors and 62 directly served industries and federal agencies look to TVA to meet their energy needs reliably and affordably and for support in keeping the costs of their products and services competitive. TVA does this by producing reliable, affordable power, which is part of its vision of generating prosperity in the Tennessee Valley and is also a significant factor in the growth and low unemployment of the region.

Just as the competitive environment is changing for TVA, it is also changing for TVA's customers. TVA locates Customer Service Centers throughout the Valley to work closely with distributors and directly served industries so they can gain a competitive edge in their markets and serve their customers.

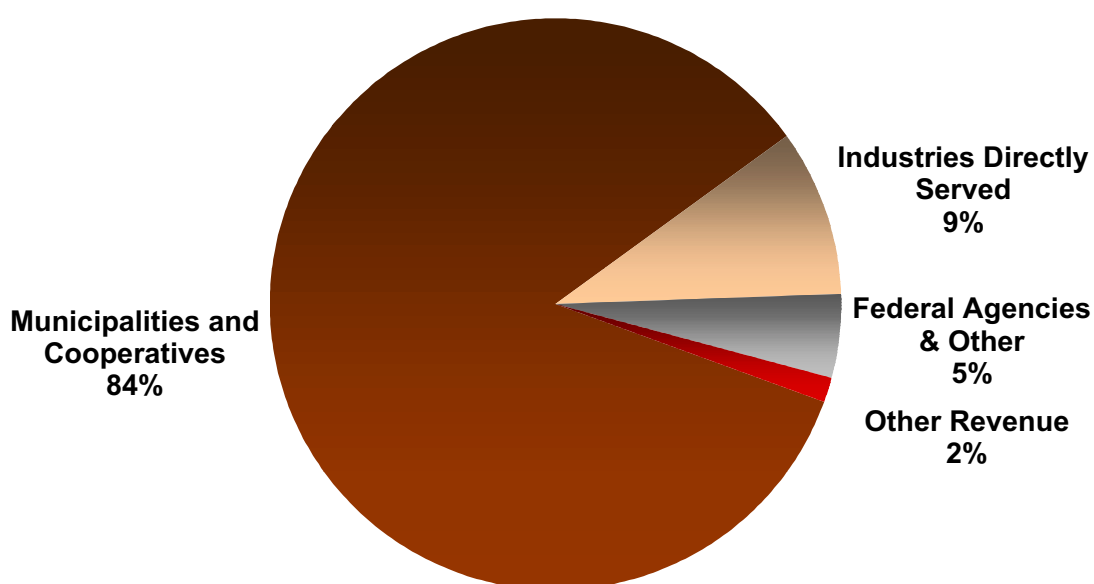
TVA Customer Service Districts



Customer Diversity

TVA generates and supplies power to a variety of customers including municipalities, cooperatives, large industrial customers, and federal agencies. TVA also exchanges power with other utilities. No single customer accounts for more than 10% of TVA's total revenue.

Total Power Revenues By Customer



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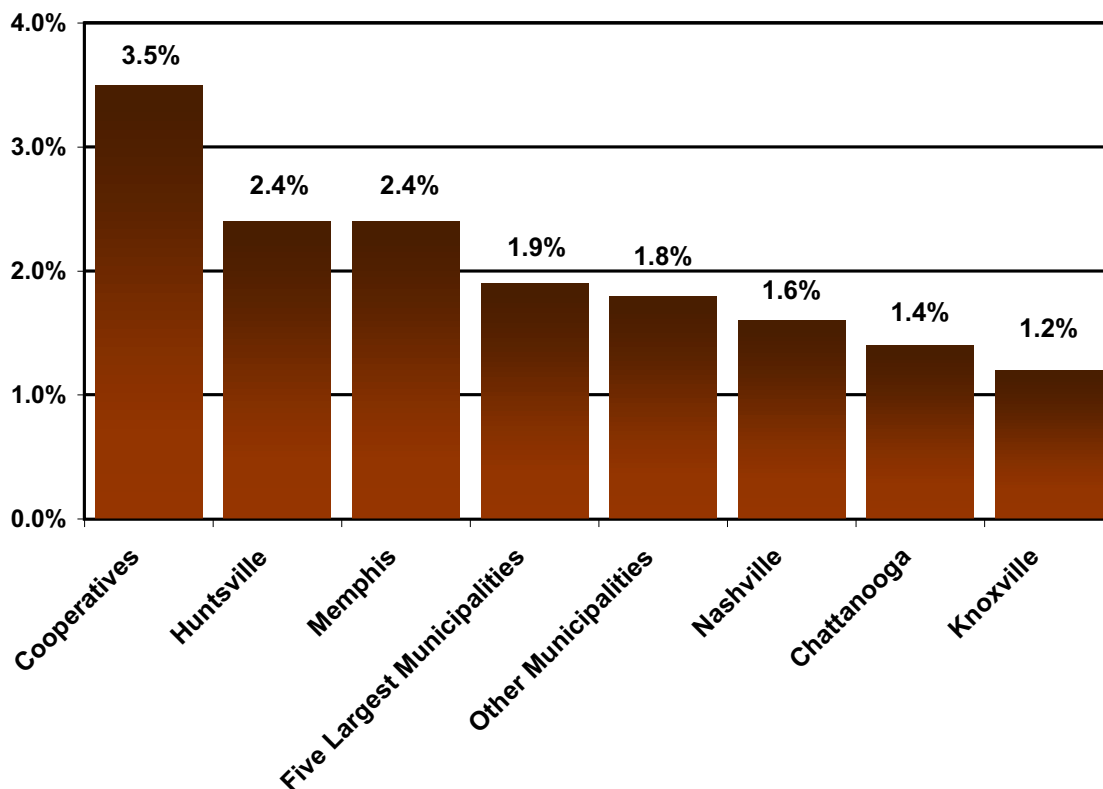
Municipal and Cooperative Distributors

Together, TVA and distributors of TVA power supply electricity to over 8 million people in the Tennessee Valley region. TVA's service area covers over 80,000 square miles in parts of seven states and stretches across two time zones.

Municipal and cooperative power distributors are TVA's two largest groups of customers. In 2001, TVA sold almost 130 billion kilowatt-hours of electricity to these groups, representing 84% of TVA's total revenues.

Sales to cooperative distributors have been the source of much of TVA's growth, increasing by 18% over the last 5 years—an average of 3.5 % annually.

Five-Year Average Annual Growth in Kilowatt-hour Sales
Five Largest Municipalities Compared to All Other Distributors of TVA Power



Large Industries and Federal Agencies

TVA provides electricity directly to 62 customers with large or unusual loads. TVA's 54 industrial customers manufacture a wide range of basic materials and finished goods, including wood pulp and finished paper, chemicals, fibers, primary and fabricated metal products, and motor vehicle parts and assemblies. Many of these industrial customers have extremely electric-intensive production processes. In order to remain competitive in global markets, customers need reliable and affordable electrical power. TVA's 8 federal customers are comprised of military installations and federal research facilities.

In addition to managing day-to-day customer relationships with its 62 customers, TVA offers a variety of industrial services that complement basic electricity needs. These value-add services enhance operational efficiencies, improve profitability, and ensure the retention and growth of TVA's directly served customer base.

In 2001, TVA sold more than 23 billion kilowatt-hours of electricity to its industrial customers and more than 8 billion kilowatt-hours of electricity to federal installations and other utilities. Total sales to directly-served large industrial customers, federal installations, and others represented 16% of total revenue.

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Customer Service Offerings

TVA's objective is to retain customers by providing a high level of service and satisfaction through a portfolio of programs and services. Customers consider reliability and price the most important attributes of a power provider. TVA's mission of providing reliable, affordable power will position it well for restructuring of the utility industry.

TVA's transmission system achieved 99.999% reliability in 2001 – considerably better than the national average.

Additionally, TVA's power rates are among the lowest in the nation. TVA's average wholesale rate for delivered power is below the effective wholesale weighted-average kilowatt-hour rate in the 7 states it serves and the 10 states adjacent to TVA's service area. TVA offers many programs that help distributors with the administrative duties associated with distributing power. By doing this, TVA centralizes many of the costs that distributors might otherwise incur separately, making distribution rates in TVA's service territory lower than other regions where distributors incur these costs separately. Some of the services that TVA provides to customers include:

Services for Individual Customers of Power Distributors

- Comprehensive Services Program
- Energy Services Company

Marketing Support for Power Distributors

- energy right®
- Industrial Marketing Support
- Commercial Marketing Support
- Residential Marketing Support
- Regional Accounts

Community Development Services

- Community Development
- Industrial Development & Recruitment
- Economic Development Technical Services
- Small Business Development

Energy Supply & Transmission & Distribution Support for Power Distributors

- Trading Support Services
- Natural Gas Management
- Transmission Design & Construction Services
- Transmission Operation & Maintenance Services
- Electrical Equipment Operation & Maintenance Service
- Distribution Equipment Operation & Maintenance Service
- Heavy Equipment & Transportation Service
- Lab & Field Testing Service

Product Development Support for Power Distributors

- Telecommunications & Energy Management
- Retail Rate Support
- Research & Development

General Administrative Corporate Support for Power Distributors

- Financial Services
- Education & Training
- Business & Administrative Services
- Information Services

Environmental Support for Power Distributors

- Environmental Information Management
- Environmental Services
- Licensed Technologies

Customer Service Initiatives

- **Comprehensive Services Program** — TVA works with distributors of TVA power to help provide engineering and technical assistance for commercial and industrial energy users. Assistance is available for all areas of energy use: lighting, heating and cooling, wiring, water heating, industrial processes, load management, and commercial cooking. In addition to helping end-use customers use energy more efficiently, these programs have been instrumental in retaining jobs throughout the region.
- **energy right® Program** — Local power distributors, in conjunction with TVA, offer an energy efficiency program to residential consumers and small business owners. The Program encourages homeowners to achieve energy efficiency by providing incentives, home energy ratings, financing, and other services for energy-efficient newly constructed homes, manufactured homes, heat pumps, and water heaters. The Program also encourages the installation of energy-efficient equipment in small businesses. The Program is designed to help consumers increase energy efficiency, improve comfort, control cost, and solve energy problems.
- **Automated Summary Billing Pilot** — TVA and distributors of TVA power are focusing attention on regional accounts—customers with multiple locations throughout the Tennessee Valley. An automated summary billing pilot will provide one bill to customers with multiple Valley facilities, which makes billing and payment more convenient while allowing a company to analyze utility costs across its operations.

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- **Variable Price Interruptible (VPI) Power** — In response to requests from its customers and power market changes, TVA and distributors of TVA power introduced a new interruptible product in May 2000, to replace Economy Surplus Power (ESP). Like ESP, the new Variable Price Interruptible (VPI) product offers “real-time” energy prices that reflect hourly service costs; however, VPI offers a different price basis and other new features and options to respond to customer concerns regarding ESP’s price volatility, price uncertainty and pricing methodology. VPI also offers customers additional opportunities to lower their average year-round cost of electricity. VPI benefits the Tennessee Valley by allowing TVA to reduce the amount of power it must buy on the days when electricity is priced highest and when power availability is extremely tight. The VPI product design is a result of numerous discussions with representatives of industrial customers, the Tennessee Valley Industrial Committee, and the Associated Valley Industries.
- **Capacity Buyback** — Last summer, Valley customers with the operational flexibility to reduce power loads or operate onsite generation during the summer period (June 1-September 15) were eligible for TVA’s Capacity Buyback Program. The demand reduction could be achieved by reducing a portion of the load or by operating onsite generation that is connected to the grid. The product included both a capacity and an energy component. The capacity payment applied even if there were no TVA calls for capacity.
- **Green Power Switch®** — TVA and local power companies, working in cooperation with the environmental community developed the Green Power Switch program. Green Power Switch is the first renewable energy initiative in the Southeast that offered consumers in the Tennessee Valley an opportunity to choose power produced from cleaner, renewable sources such as solar, wind, and landfill gas. Green power is sold to residential consumers in 150-kilowatt-hour blocks, each block adding \$4 to the customer’s monthly power bills. Green Power Switch is also being marketed to commercial and industrial consumers, who can buy blocks based on the amount of energy they use.

Contract Flexibility

For most distributors of TVA power, the anticipated restructuring of the wholesale and retail power markets presents a significant set of challenges. A number of TVA’s customers have requested more contract flexibility to respond to these challenges. Many of these entities want to be able to extend the length of existing contracts to lock in greater price certainty in an uncertain future, while a few desire the opportunity to purchase a portion of their load from non-TVA sources. TVA is working closely with its customers to develop and implement contract flexibility options that will be mutually beneficial including multiple sources of power supply.

Summary

In a restructured marketplace, TVA will only be as strong as its customers. TVA can help smooth the transition to a more competitive environment by continuing to produce power as economically as possible and helping customers meet their energy needs. TVA will continue to make decisions based on its mission to serve the needs of the public and will stay responsive to its customers and the region that it serves.